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HOUSE REPUBLICAN CONFERENCE
CHAIRMAN ADAM PUTNAM WASHINGTON D.C. 226-2302

H.R. 3963 - Children's Health Insurance Program Reauthorization Act of 2007

FLOOR SITUATION

Representative John Dingell (D-MI) introduced H.R. 3963 on October 24, 2007. This legislation comes in response to the vetoed Children's Health Insurance Program Reauthorization Act of 2007 (H.R. 976) that was intended to reauthorize the State Children's Health Insurance Program (SCHIP). This legislation did not go through any committee hearings nor was it passed through a committee. Text of the legislation was made available just prior to consideration of the bill in the Rules Committee.

H.R. 3963 is being considered on the floor under a closed rule. The rule:

- Provides one hour of debate equally divided and controlled by the Chairman and Ranking Republican Member of the Energy and Commerce Committee and the Chairman and Ranking Republican Member of the Ways and Means Committee.

- Waives all points of order against consideration of the bill and the amendments except those arising under clause 9 (earmarks) and 10 (PAYGO) of Rule XXI.

- Provides that the bill shall be considered as read.

- Waives all points of order against provisions of the bill, as amended. This waiver does not affect the point of order under clause 9 (earmarks) of Rule XXI.

- Provides one motion to recommit with or without instructions.

- Provides that, notwithstanding the operation of the previous question, the Chair may postpone further consideration of the bill to a time designated by the Speaker.

This legislation expected to be on the House floor on October 25, 2007.

SUMMARY

This legislation reauthorizes the State Children's Health Insurance Program (SCHIP), which was established under The Balanced Budget Act of 1997 to provide health coverage to uninsured children who would not otherwise qualify for Medicaid.

Specifically, this legislation would:

- Significantly expand the scope and coverage of SCHIP and Medicaid

  Note: The bill provides significant increases in federal funds to states to enable them to expand SCHIP, costing $35.4 billion from FY2008-2012.

- Defines the poverty level to qualify for SCHIP at 300%.

  Note: This legislation allows loopholes for states to define what 300% of poverty is and how a state can use these new funds. A state may chose to select income disregards, allowing families with higher incomes to appear to be under the 300% poverty level.

- Defines children eligible for SCHIP to include any person up to age of 21.

- Extends the benefits for childless nonpregnant adults who are enrolled in SCHIP for a year.

  Note: While the legislation claims that the Secretary is "prohibited from approving, renewing a waiver, experimental pilot, or demonstration project that would allow funds to be used for nonpregnant childless adults," it continues to allow these individuals to be enrolled for a year.

- Permits some adults to stay enrolled in the program.

  Note: While this legislation phases out childless adults, CBO still estimates that in 2012 under this bill roughly 10% of SCHIP beneficiaries will be adults.

- Eliminates the citizenship test for individuals to become eligible for SCHIP and Medicaid and simply requires that they present a Social Security number, name, and proof of origin of birth. If a social security number is found to be questionable, then additional documentation is required by the state.

  Note: While Democrats claim that this provision strengthens the citizenship requirements, the Congressional Budget Office (CBO) score reflects no change in the cost for citizenship documentation. Many have criticized the use of a social security card as a source of documentation for citizenship, which leaves this program (under this provision) susceptible to fraud.

- Provides "bonus payments" for States who cut corners, including the asset test.

  Note: Disregarding the assets test enables states to fund families significantly above the FPL.

Note: This legislation eliminates Health Opportunity Accounts as a form of qualification for bonus payments. Health Opportunity Accounts provide a chance for those in the lower income brackets to enroll in a program similar to Health Savings Accounts (HSA).

Note: Providing bonus payments for states without any oversight significantly increases the likelihood of fraud, further raising the cost of the program.

- Changes the period of time that a state has to spend its SCHIP allotment from three years to two years.

  Note: A shorter time period deters a State's focus from long term planning, encourages them to be less frugal and overspend their allotments. This has a particularly large impact on states with greater populations.

- Increases the rate of excise taxes at the manufacturing level on tobacco products and cigarette papers and tubes.

  This increases the tax on:
  - cigars from 20.719% to 53% with a $3 per cigar cap;
  - cigarettes from 39 cents to $1;
  - cigarette papers from 1.22 cents to 3.13 cents;
  - cigarette tubes from 2.44 cents to 6.26 cents;
  - snuff from 58.5 cents to $1.50;
  - chewing tobacco from 19.5 cents to 50 cents;
  - pipe tobacco from $1.0969 to $2.8126; and
  - roll-your-own tobacco from $1.0969 to $8.8889

  Note: With a shrinking tobacco market, this tax uses declining revenues to pay for an expanding program. According to some estimates, it would take 22 million new smokers in the United States in the next 5 years to pay for this program.

- This reauthorization is set to expire in 2012 and includes a "drop-off" after that in FY 2013.

  Note: SCHIP uses a budget gimmick in order to comply with PAYGO. From FY 2008-FY 2012, funding levels will increase to more than $8.4 billion a year, then after FY 2012, the funding level will drop off to only $600 million in 2013. CBO previously reported that this type of budget gimmick will cause 6.5 Million children to lose their SCHIP coverage by 2017. In addition, CBO indicated it will cost an extra $40 Billion to allow these children to continue on SCHIP. When Republicans created SCHIP in 1997, they fully funded the costs of the program over 10 years – something Democrats have failed to do with this bill.

- Includes several earmarks that have been included in previous versions of the SCHIP legislation.

- This legislation will move children from private insurance to a government run insurance program

  Note: According to estimate by the Congressional Budget Office (CBO), approximately 2 million children who already receive private insurance will move into the SCHIP program.

BACKGROUND

The Balanced Budget Act of 1997 established the State Children's Health Insurance Program (SCHIP) Title XXI of the Social Security Act. The purpose of this program is to target children who are uninsured and otherwise would not qualify for Medicaid.

It should be noted that Title XXI currently does not establish a new *individual* entitlement or entitlement program. Instead, Title XXI enables *states* with approved state SCHIP block grants to establish a children's health program. SCHIP awarded $40 billion in Federal block grants over a 10 year period to assist states in the coverage of children. States are provided a fixed federal contribution each year based on a formula that includes the number of low income children, uninsured children and the cost of health care in the state. Each state has access to the allotment for three years, and any remaining funds leftover are reallocated to states that have exhausted their original allotments. SCHIP funds were set to expire on September 30, 2007.

H.J.Res. 52, Making Continuing Appropriations for the Fiscal Year 2008, extended the Children's Health Insurance Program (CHIP) as it is currently structured, until either the program is reauthorized or until the expiration of this Continuing Resolution. The President signed this into law (P.L. 110-92) on September 29, 2007.

Over the past three months SCHIP has gone through various phases and proposals leading up to the legislation being considered today.

The Children's Health and Medicare Protection "CHAMP" Act of 2007

On August 1,2007 the House considered on The Children's Health and Medicare Protection "CHAMP" Act of 2007 (HR 3162).

In order to pay for an expansion of State Children's Health Insurance Program (SCHIP) crafted by the Democratic majority, the measure cut $194 billion from Medicare programs. This legislation included several erroneous provisions, most significant being the cuts to Medicare that would harm senior citizens. These cuts included:

- Payments to Medicare Advantage plans that provide extra benefits to Medicare beneficiaries ($160 Billion cut) note this is a 10 year number.
- Payments for hospitals for inpatient care ($2.7 Billion cut)
- Payments for inpatient rehabilitation services ($6.6 Billion cut)
- Payments for skilled nursing facilities ($6.5 Billion cut)

- Payments for certain drugs ($1.9 Billion cut)
- Payments for home health care services ($7.2 Billion cut)
- Benefits for those with End Stage Renal Disease ($3.6 Billion cut)

The House passed H.R. 3162, 225 – 204.

Children's Health Insurance Program Reauthorization Act of 2007
On September 25, 2007, the House considered Children's Health Insurance Program Reauthorization Act of 2007 (H.R. 976), which was passed by the Senate. This legislation raised several concerns:

- *Increase the coverage and scope of the program*- The bill provides significant increases in federal funds to states to enable them to dramatically expand CHIP, costing $60.2 billion over five years, which includes $25 billion contained in the budget baseline and a $35.2 billion expansion. Using these new funds, a state could qualify a family of four making up to 400% of the federal poverty level to receive taxpayer subsidized, government-run healthcare under a program that was originally intended for low-income children.

- *Expands the coverage of the program from just children*-SCHIP program is intended to cover children. However, this legislation, defines children eligible for CHIP to include any person up to the age of 21. This is an expansion from current legislation which has an age limit of 19. Further it extends the benefits for childless nonpregnant adults who are enrolled in CHIP until October 1, 2008, with the opportunity to extend their benefits further.

- *Weakens citizenship tests*- Eliminates the citizenship test for individuals to become eligible for CHIP and simply requires that they present a Social Security number. This is different from current law which requires that states must determine whether persons applying for Medicaid and SCHIP are U.S. citizens and therefore entitled to participate in these programs. By simply allowing individuals to apply with a social security number this provision weakens the citizenship requirements and opens the door for: legal aliens who are not naturalized citizens, illegal aliens fraudulently using another persons valid name and Social Security number, and individuals who have illegally overstayed a valid work permit.

- *Includes a major tax hike on tobacco*- Increases the rate of excise taxes at the manufacturing level on tobacco products and cigarette papers and tubes.
  Note: With a shrinking tobacco market, this tax uses declining revenues to pay for an expanding program. According to estimates, it would take 22 million new smokers in the United States in the next 5 years to pay for this program.

- *Uses budget gimmicks to fund the program*- This reauthorization is set to expire in 2012 and includes a "drop-off" in FY 2013.CHIP uses a budget gimmick in order make their math work. From FY 2008-FY 2012, funding levels will increase to more than $8.4 billion a year, then after FY 2012, the funding level will drop off to only $600 million in 2013..

- *Includes several earmarks that had not been included in previous versions of the CHIP legislation*

- *Moves children from private insurance to a government run insurance program-* According to an estimate by the Congressional Budget Office (CBO), approximately 2 million children who already receive private insurance will move into the CHIP program.

This legislation passed the house on September 25, 2007 by a vote of 265 to 159.

On October 3, 2007 President Bush vetoed this legislation because (according to the Statement of Administration Policy) it “takes the program away from its original intent of covering poor children; moves millions of American children who now have private health insurance into government-run health care; and is an incremental step toward a government-run health care system. The bill also includes excessive spending funded with significant tax increases.”

On October 18, 2007 the House voted to sustain the President’s veto.

COST
CBO Estimate of the Effects on Direct Spending and Revenues, H.R. 3963

CBO Estimate of Changes in SCHIP and Medicaid Enrollment of Children under H.R 3963

STAFF CONTACT
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